OZ JUST DOES IT BETTER:
A comparison between Australian and New Zealand family tax credits

Dr Ben Spies-Butcher and Dr Adam Stebbing of Macquarie University

At first glance New Zealand and Australia have very similar family tax credit (tax benefit) systems. Both have a targeted system, which provides larger payments to those on the lowest incomes and with larger families, and provides very little if anything at all to those on high incomes. And in both cases the desire to target resources leads to complexity and perverse outcomes.

These similarities reflect a long history of borrowing from and informing each other's approach. But, there are also important differences. For age pensions those differences reveal a universal, less complex and more efficient system in New Zealand. When it comes to families, it is almost the exact opposite. Australia's system is more generous, less complex and more efficient.

To see those differences requires looking closely at the detail, something that is often difficult to do in public debate or political contest. First, Australia is far less stingy when it comes to how payments are indexed and reduced. Second Australia's system is based far more closely on the principle of need. And finally, the Australian system is less harsh in how it handles complexity.

In both countries family payments are made up of multiple components. This reflects a highly targeted approach and multiple policy goals. Often different sides of politics will 'bolt-on' new payments to achieve their goal. In Australia the main payments are Family Tax Benefit Part A (FTBA) and Part B (FTBB). In New Zealand they are the Family Tax Credit (FTC) and the In-work Tax Credit (IWTC) (collectively called Working for Families).

Even without looking closely at the differences, we can see Australia's payments are a more generous. The maximum FTBA payment for a family with one older child in Australia is just over $260 (Australian dollars) per fortnight, in New Zealand the equivalent FTC payment is about $204 (New Zealand dollars). For a child under 13, Australia is $208 and in New Zealand is $184 with each additional child under 13 another $208 (Australia) and only $130 NZ.

For FTBB (child under 5) the maximum is $166 (AUD), for IWTC it is $145 (NZD).

The difference only increases as you look more closely. Both FTBA in Australia and FTC in New Zealand are based on household income, and so closely match payments to needs. However, Australia's income test is more generous. Families with one child earning $100,000 a year still receive some payment. In New Zealand payments cut out for families with one child earning $58,000 per year.

That is a big difference and reflects a double taper in Australia. Payments are income tested, so as income rises family tax benefits fall. This is called a taper, and in New Zealand there is a single taper rate, meaning tax credits are completely phased out quickly. In Australia, there are two tapers. Family tax enefits initially fall by 20c in the dollar, until a family's income hits about $50,000. But then the taper stops so that middle-income families are guaranteed some payment, before it starts again at a higher rate above $94,000. So the payment is still targeted, but is much more inclusive.

Australia has also done less to reduce payments in the wake of the financial crisis. While New Zealand has reduced indexation, reduced the threshold and is increasing the rate of abatement over time payments continue to fall behind need, while in Australia payments are set to return to normal indexation after the freeze.

The second big difference is how the two systems target need. While the base Tax credits or tax benefits are tied to household income, additional payments are not. In both cases this reflects new governments attempting to build different policy goals into the system. But perhaps ironically, the system in Australia (built largely by the conservatives) has ended up being much more egalitarian than the system in New Zealand (built largely by Labour).

New Zealand's In-work Tax Credits are less about need and more about work incentives. They reward families where parents have paid work – and work substantial hours. This reflected Labour's Third Way belief that work is the only real answer to poverty and need. And, the fact that most workers are excluded from New Zealand's more tightly targeted basic Family Tax Credit payment.

The problem is, it means payments go to families with relatively higher incomes (those with paid work) rather than those in greatest need. It also means families out of work because of an economic downturn have the double punishment of losing wage and tax credit income for their children at the same time. In deregulated economies with high levels of precarious work, that is a real problem. And it means the resources allocated to children reflect the work status of their parents – something New Zealand courts have found to be discriminatory.

In contrast, Australia's FTB Part B was designed to give a helping hand to single income families. The payment was initially only means-tested against the *second* earners income. This has disastrous impacts for women's labour market engagement in some cases. But, it had an unexpected benefit, which has become more pronounced since.

Not only did the payment benefit high-income households with a stay at home parent – it also benefited single parents. Single parent households experience a higher risk of poverty, so the payment ended up (somewhat inadvertently) targeting a real need. Later reforms also introduced a means-test on the first earner, limiting payments for very rich single income households, and cuts to payments have not affected the FTB part B received by single parents. The end result is a more egalitarian system.

Finally, the two countries differ in how they deal with the sheer complexity of these systems. The multiple payments, phase outs and cut in points make it very hard to deal with. And family circumstances change – meaning many end the year owing money back to the government.

In New Zealand the problem is so bad that a third of WFF payments are incorrectly calculated by more than 20% (Stock 2016). And when there is an over payment, the government goes to extraordinary lengths to get the money back – effectively bankrupting families on the way.

Australia's different approach partly reflects its greater universality. Because so many middle-income families were receiving bills to repay benefits it became a political problem. The solution was to create a new lump sum yearly payment for all families that came at the same time as the bill. This reduced the pain of repayments, and made a nice election boondoggle. It also reduced the harsh impacts on families and improved adequacy.

And here in lies an important lesson. Just like the universalism of New Zealand's pension has made it near untouchable politically, the greater universality of Australia's family payments has strengthened their political resilience. Australia's more generous taper rates have also meant most working families access the main payment, and so avoided the problem that In-work Tax Credits was designed to solve. It provides a good model for reform that is affordable and fair.

FOUR LESSONS FROM AUSTRALIA:

1. Make sure payments reflect need. Don't exclude the poorest families.
2. Reduce the taper rate to reward work – the double taper is a good model.
3. Make sure payments are indexed to the real cost of living.
4. An increase in universality and benefit rates can reduce administrative complexity and potentially save the government money.

Reference

http://www.stuff.co.nz/business/78333951/Some-government-benefits-are-quietly-being-eroded-at-the-expense-of-families